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FISCAL IMPACT STATEMENT

LS 7857 **NOTE PREPARED:** Jan 22, 2003
BILL NUMBER: SB 458 **BILL AMENDED:**

SUBJECT: Child Care Tax Incentives for Employers.

FIRST AUTHOR: Sen. Lawson C **BILL STATUS:** As Introduced
FIRST SPONSOR:

FUNDS AFFECTED: X **GENERAL** **IMPACT:** State & Local
DEDICATED
FEDERAL

Summary of Legislation: This bill provides a state tax liability credit for an employer that provides a qualified child care facility at the employer's worksite for use by employees. The bill provides that the maximum amount of the credit is the lesser of: (1) 15% of the employer's expenses for capital improvements or compensation paid to new child care workers at the qualified facility; or (2) $20,000. The bill also provides a five-year deduction from the assessed value of a qualified facility that has been expanded, renovated, or rehabilitated in an amount equal to the increase in assessed value resulting from the improvements. The bill provides a five-year deduction from the assessed value of a newly constructed qualified facility in an amount equal to 50% of the total assessed value of the new facility.

Effective Date: January 1, 2004.

Explanation of State Expenditures: *Income Tax Credit*: This bill will increase the administrative expenses of the Department of State Revenue to revise and create new tax forms, instructions, and computer programs to accommodate this new tax credit. These expenses would presumably be covered under their existing budget.

Explanation of State Revenues: *Income Tax Credit*: This bill will provide a tax credit to employers who make capital or operating expenditures for an employee child care center. These credits must be for a child care program, of which at least 50% must be children of employees, is operated by or contracted with one or more employers, and is licensed by the Division of Family and Children. Child care program capital expenditures are defined to include expenses for plans, acquisition, construction, reconstruction, renovation, or rehabilitation of depreciable property located in Indiana. Child care program expenditures are defined as the total expenditures made by a taxpayer during the year to operate the employer's program or a program jointly operated with another employer. The tax credit is equal to the lesser of $20,000 or 15% of the qualified program expenditures. The tax credit is effective for tax years beginning January 1, 2004. This tax credit will reduce income tax revenue by an indeterminable amount beginning in FY 2005.

According to the Family and Social Services Administration, there were approximately 50 employer-operated child care centers which were licensed in 2002. However, only 18 of these would appear to have a potential tax liability. It is not known how many of these would have qualified expenditures which would qualify for the federal credit or have qualified planning expenditures. If all 18 employers qualified for the maximum amount of this tax credit, there would be an annual reduction of approximately $360,000 in tax revenue. If this tax credit provides an incentive for other employers to make qualified expenditures for an employee child care program, there would be a reduction in income tax revenue by a maximum of $20,000 per taxpayer.

The tax credit may be applied to the employer's Adjusted Gross Income, Financial Institutions Tax, and Insurance Premiums Tax. If the tax credit exceeds the taxpayer's liability, the credit may be carried forward to the next three taxable years. The tax credit may not be carried back or refunded. If a pass through entity does not have a state tax liability, they may apply this credit in proportion to the percentage of the entity's distributive income to which the shareholder is entitled.

The tax credit applies to taxable years beginning January 1, 2004, and will affect income tax revenue collections beginning in FY 2005. Income tax revenue is deposited in the state General Fund.

Explanation of Local Expenditures:

Explanation of Local Revenues: *Property Tax Deduction:* This bill would provide property tax deductions to employers who make qualified child care expenditures as explained in *Explanation of State Revenues*. The deduction would be equal to (1) 100% of the additional assessed value due to an expansion, renovation, or rehabilitation or (2) 50% of the assessed value of new construction of a qualified employee child care center. The deduction would be valid for five years and would not include land.

If there is an increase in development of employee child care centers because of this proposal, the new property would, after 5 years, be fully placed on the tax rolls. This could help spread the property tax burden and could possibly reduce some tax rates. However, if one assumes that the investment would be made with or without the deduction, the deduction could also cause a delay of the shift of the property tax burden from all taxpayers to the owners of the new property until the property is placed on the tax rolls.

Total local revenues would generally not be affected.

State Agencies Affected: Department of State Revenue; Department of Local Government Finance.

Local Agencies Affected: County auditors.

Information Sources: *2003 U.S, Master Tax Guide*; Internal Revenue Service; Family and Social Services Administration.

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